Michael Batnick: The Irrelevant Investor

Jim: Well hello everyone, it's Jim O'Shaughnessy and my colleague Jamie Catherwood, with another edition of Infinite Loops. Today I am delighted to have my friend Michael Batnick, the director of research and a principal of Ritholtz, I fucked that up, Ritholtz Wealth Management. Michael, how you doing?

Batnick: Hey guys, thanks for having me. This is very exciting.

Jim: Yeah.

Batnick: Haven't seen a new face in months.

Jim: I know. Right? Well I'm kind of lucky because, so Patrick and Lauren live close by, and my grandchildren come over like every other day. So it's super great.

Batnick: I love your Instagram feed, love seeing that.

Jim: Thank you. Well we were chatting before we started to record, and I just so fascinated by your story. And I know most, a lot of people already know it, but maybe some of my listeners don't. And I think there's so many points of illumination that illustrate that you can get to where you want to get if you just keep trying. And tell us a little bit about your background and how you went from where you were, right, to I mean like one of the best known people, certainly on Twitter and in asset management.

Batnick: It's funny because before we started this, I was talking to, I was congratulating Jamie for being persistent/very annoying. And I never really considered the fact that I was sort of persistent, but it was only for a lack of options. I was persistent because there was nothing for me to do. So I never gave a shit about school, like so many people. And for whatever reason, it never clicked with me, I was never motivated by grades and I didn't get good grades because I didn't really care. And when I graduated from college a year or two late, I entered the real world and I was like, oh, this is why people work, this is why people go to the library. Because I am up shit's creek, I got nothing. I graduated from Queen's College, which is fine, but it was December 2008, great time to be graduating. And now what? And I always had confidence in myself, that if somebody opened the door for me then I would be able to step through and be helpful.

Batnick: I didn't know what I had, but I knew that I could help people. And so I got a job at an insurance company. And I was like, I knew it'd work out. See? Like I don't know what everybody's worry about, I knew it would work out. Here I am, I've got a job, it's all good. And then obviously the reality hit me, it's like, oh, they want you to sell shit that nobody wants to people that don't know you. Got it.

Jim: [crosstalk 00:13:06].

Batnick: Yeah. So this is why they hire anybody. And to add insult to injury, not only do they not pay you, I had to pay rent.

Jim: Oh my god.

Batnick: I literally had to pay rent. And the only reason why I had any money to pay rent was because I was home at college for a few years, so I was a waiter. So I had saved up a decent amount of money doing that, and then spent it all on rent and surviving for the next two years. And so I got what I was talking about, about the worst advice I ever got. I met somebody who was in the financial services industry, I told them what I wanted to do, which was somehow get into the market. I didn't even know what that meant. I didn't know what the sales side was or the buy side. I had no idea what jobs even existed, but I knew that I liked the stock market. Because as it so happens, as it often does, just this random occurrence, my father introduced me, my father's a periodontist, introduced me to a patient of his who is an advisor at Wells Fargo. And I met this guy and he was super nice, and for whatever reason, everyday he started sending me Ed Yardeni and Breakfast with Dave Rosenberg.

Batnick: And this is 2009 and I'm reading about the pigs, and I have no idea what they are. But I'm interested in stuff. So I was at the insurance company, everyday, probably for, I was there for a year and a half total. So this was probably a full year, I would go in and nobody cared what I was doing because I was paying rent and I wasn't doing any business. I had no manager, I was literally just on an island by myself. And I would go in and I would read about the stock market, and that was my job. I was paying rent to go and study about the stock market.

Batnick: But... Oh okay, so where I was going was this. So that got me really interested in the market. And so I met somebody and he said, he gave me the advice, "Just why don't you go do the CFA, get a job at a hedge fund, you'll be an analyst." And I was like, oh, cool.

Jim: I like that.

Batnick: That sounds like a good idea. Okay.

Jamie: Is there a from I fill out?

Batnick: Like, now we're talking. So I quit my job and I started, I went to the library and I opened up the books. And I spent probably a year trying to get a job, and unlike Jamie who was so persistent in terms of reaching out, I... It's a contradiction, where, I had inner confidence in myself but I wasn't outwardly confident. I didn't have the chutzpah to knock on somebody's door and say, I will do whatever it takes, I will work for free. Listen, I'm paying rent, I'll pay you. I'll pay you rent to hire me. I didn't have that outward confidence for whatever reason. So I was really hurting, in terms of my career. Like I had no direction and I had one job opportunity, one final job opportunity. And I've told this story before, but the serendipity makes it worth repeating.

Batnick: So I had one final job opportunity and it was May 2012, and I was with my friend, we were going to the Knicks game, it was a playoffs, game three, I believe, against the Heat. And as we sit down, I get an email in my Blackberry, "Sorry Michael, can't help you." And I'm just like, fuck. Like, ugh, now? Like I got the email now? And at this point in my head I'm like, all right, I guess I'm just going to go work retail, just get a job at Verizon or Starbucks. I really didn't know what to do. I had nothing, no back up plans. I had really messed up in college and education, and I was paying the price now. So we sit down, the game starts and the Knicks are getting blown out.

Batnick: And it's third quarter, and Mario Chalmers buries a three, puts the Knicks down by 22. And I'm like, I'm out of here. Mind you, this is playoffs, it's game three. Ordinarily, I would never have left. But I was so down because I got that email, I was just so upset, the game was over and I just said to my... My friend was like, "Where are you going?" I'm like, "I'm sorry, I just, I got to go." I was in a really bad mood. So it was probably 10:45, I'm on my phone and this is a long winded story but there's reason for it. So I'm on my phone and I'm reading like a tweet storm from Josh Brown, about how old Kurt Cobain's daughter is and how old we're getting.

Batnick: And I had followed Josh throughout the years. We grew up in the same town. A lot of the stuff that he was doing, The Reformed Broker blog, I saw the same practices, not quite as nefarious. But I saw, you know, just the incentives that people are driven by at the insurance company, and how sales cultures work and all that sort of stuff. And so as we were pulling up to my station, my hometown, my phone died. And again, I'm being overly detailed, but the reason why I say this is because if my phone did not die, I probably would have been on my phone walking out of the train. But my phone died, so I put it in my pocket and I walked right past Josh. And it was this galaxy moment for me, where I was like, holy moly. And again, it's Friday night at 10:30, 10:45. What are the odds that Josh was out in the city that night and on the same train home as me, and my phone happened to die, and I was pissed and the Knicks were getting blown out. All of these things had to come together.

Batnick: And so I basically, I froze and I still remember this feeling. I turned around and I grabbed him. And I spoke to him about 15, 20 minutes and I saw a few months later that he and Barry were hiring. And I sent him a DM, and I guess just like Jamie did, and that was it. So yes, I am incredibly lucky and luck is the right word. And I guess where I can give myself a little bit of credit is that, because I was so immersed in learning about the market, I was very open with him. I was like, "Dude, I am obsessed with this stuff. I don't know anything but I love it, and I want to learn." And I didn't pretend like I knew more than I did, but I was prepared enough to be able to sort of speak the language and just say like, I will do anything that you need me to do.

Jim: So cool. And you know, I read about that kind of stuff a lot. Carl Jung, this famous psychologist, called it synchronicity. Right? Not a coincidence, but when a series of events happens in the most unlikely of orders. What's super interesting about that to me is that happens to a lot of people with stories like yours. Right? And so obviously sort of destined to be. So obviously director or research, your firm, our firm's do business with one another. You guys are growing like leaps and bounds. What's the secret?

Batnick: The secret is that people do business with people they like, and there are a lot of people that don't like us and that's fine. But there are also a lot of people out there, and I a lot of people do like what we have to say. And that's the secret. It's certainly not our stock picking, or index picking, or our tactical model, or we have the best financial planning software. I think we do everything very well. But people like us and they trust us, and that's really the secret to the extent that there is one.

Jim: I completely agree. We were talking earlier with Brent Beshore, who I think you know.

Batnick: Yup.

Jim: And it came up that most people, when I talk to them about Wall Street, they really look at me like I have three heads when I say that Wall Street, among many businesses, is based on trust. And it goes from the beginnings, where I call you and I say, "Michael, hey, I've got xyz. Will you take it at 100?" You say, "Yeah, done." And we hang up the phone. And then it goes down to 80, I call you back and say, "Okay, where's my money?" And I say, "I don't know you. DK." Right? On Wall Street, now I'm obviously, I just turned 60 in May, so I'm a lot older than you guys. But I watched people who DKed people be completely just frozen out of the industry. And kind of the whole, my word is my bond, all that kind of stuff. So I get it. Right? And authenticity's the other thing. If you are... I try to help a lot of younger people who are like trying to get into the business.

Jim: And I keep hearing from them, oh, I'm developing my brand. My brand, my brand. And I'm like, dude, you're personality is going to be your brand. And if you try to be inauthentic and spew bullshit, honestly, that you think people want to hear, people have really good bullshit detectors.

Batnick: Yeah. I mean the worst advice that I've ever heard is fake it 'til you make it. I don't know if that's said in jest, but I don't really think it is. And who do you think you're fooling?

Jim: Exactly.

Batnick: And to your point Jim, about not being honest with people, it seems so obvious, and I'm not saying I'm Mother Theresa. But don't be a dick is probably the best advice that you could give somebody. And you see people, some people, the way they behave on Twitter. It's like wait a minute, aren't you in the business of raising money? And you're not even... People that aren't anonymous, it's like people see how you behave and I don't care what your returns are. People don't want to be associated with jerks.

Jim: Exactly. And it's funny to me, because I often say, or when I write about it, or talk about it, investing is simple but not easy. And people don't get that. Right? It seems pretty self evident to me, but they conflate complexity. Like, if I'm going to do great, I've got to understand the complexities of everything. No, you don't. If you're a young person and you've got a lot of time, and you don't want to like use a systematic quant approach like I use and advocate for reasons, because i did all my homework on that. Well, there are wonderful indexes that you could just dollar [inaudible 00:23:35] your money into every month, and you're done. Right? And so we over complicate everything. And I think one of the things you guys do really, really well, is you bring that very real aspect to both your communications with others, et cetera. And in a business that is just filled with jargon, that is like really refreshing. So how are you handling the growth? I mean I know Nick worked for us, briefly, before he worked for you.

Jim: And now he's the chief operating officer, another part of another a growing company that I love, that young people can like rise really quickly. But are there problems? And if so, how are you solving them?

Batnick: Yeah, we have had growing pains. I think that's inevitable, in terms of either just cost growing faster than revenue, sometimes. Or bodies growing faster than we can handle it. I mean there are growing pains. It's a first world problem to have, for sure.

Jim: Sure. And do you guys, is it a collective decision making process? Because I know you guys are tight. Or is it Barry and Josh? Or Barry, Josh and you? How do you work that out?

Batnick: Well I would say that there is no, nobody has the hammer, which is great. Because I don't think a business can operate that way. The four of us, myself, Barry, Chris and Josh, we talk all the time, we meet regularly. Whether it's hiring or anything like that. There's never a situation... So our motto for this is, and I think that's probably the biggest decisions that you could make is who do you add to the team. And the motto for this is, if it's not an obvious yes, it's a no.

Jim: Yeah.

Batnick: And so when we instituted that, it became so clear that there were people that had some really attractive things about them, but it wasn't an obvious yes because there was one or two things. And that is probably the best thing that we've done, is not add employees, not add advisors too quickly. If we wanted to add 10 advisors a year, it'd be very easy to do so. Bu we have to be very selective about that because everybody that we add, there is just so much time that goes on. And 10 million things have to go right, in terms of investment philosophy, compensation structure, just overall being a great person. Like a million things have to go right, and if any one or two of them go wrong, it's out. So Chris and I have gotten very good at identifying early on who's going to be a good fit and who's not. So I think we've gotten incredibly efficient at the process of adding advisors.

Jim: Yeah. Because you, I would guess you probably get tons of requests everyday. Hey, we'd love to join you. And some of those are going to work out great. You mentioned Jamie, Jamie was very persistent and it worked out great. Right? So we follow kind of the same methodology at OSAM. So shifting gears a little bit, what new piece of research on the market are you fired up about? That you think really is something that, wow, I haven't thought about that. Or maybe I didn't believe that in the past and I believe it now. You got anything for me?

Batnick: Yeah, these sort of questions always stump me, because... And this, I don't want to say [inaudible 00:27:09], that sounds ridiculous. But I read so many things and watch so many things, but if you ask me what I'm reading or watching, I can't remember. But it just so happens that I do have an answer for you because I read this before we were talking. This is fairly simple, it is not going to necessarily shock you, but people often talk about value, is it dead? Does it work? Blah, blah, blah. And one of the, or the index that is often used is the Russell 1000.

Batnick: And you are familiar with the fact that there can be stocks in both the growth and the value index, and it's not simply a book to market, or price of earning or anything. There is two other criteria involved. So what [Jack Bogle 00:27:48] did was he showed the returns going back to 1979, of growth versus value. And sure enough, growth beats value since inception, over five years, three years, 10 years, 50 years. Pretty much every time frame, growth has outbeaten value. Which is remarkable. But what Jack did was he broke it down into the simplest metric possible, price to earnings. And he split it, the lowest 500 versus the top 500. That's it. And if you simply do that alone, value has come out, I think 300 basis points ahead per year since 1979. And obviously it's still [inaudible 00:28:25] over the last three, five years. There's no difference there. But I thought that was pretty fascinating.

Batnick: Just something very simple that was like, huh, so maybe it does work after all.

Jim: Yeah. You know it's so interesting to me, because when I was doing What Works on Wall Street, a lot of those kind of simple tests, right, proved to be the most efficacious. In terms of like, you bring up the Russell Indexes, I'm not going to bang on Russell. I mean, they've been around for a long time and they are what they are. Right? But I like to say that the truth loves footnotes and fine print. And I would guess that even the people listening to us today, who are probably pretty savvy about the market, for the most part, probably don't know that about the Russell. Right? They don't know that the Russell one, value and growth, have many of the same stocks. Right? Because of the methodology. And so apples to apples.

Jim: What's funny about it to me is that people think they're doing apples to apples, and they're not. Right? And no foul by them. You know, they're playing by the existing narrative. And I'm always fascinated about that. And we found that you're better off actually using a composite of value factors, and momentum factors, by the way, which we use in several of our portfolios, then you are in any single one. But yeah, you got to keep digging. You got to keep peeling the onion, because it's so easy for us, right, to fall into whatever the compelling narrative is. And I read that same study, by the way, and I thought it was really interesting.

Jim: So what happens, like and I know the answer, I think, to this, but I'm going to ask you anyway. What happens when you get a client that you think, right, is going to be a great fit? And then they have some kind of foundational keystone belief that just is opposed to your foundational beliefs. Is it just thanks but no thanks?

Batnick: Yeah, so let me just preface this with, I'm not a financial advisor that is on the phone with clients. So I do speak to clients of the firm, regularly, to talk about the portfolio, investing, questions. But I'm not delivering the financial plan, I have no expertise there. So I can't speak to this specifically, but I can generally. If we have somebody that says that I see Josh on CNBC and, man, he nailed it with [inaudible 00:31:10], I want him to pick stocks for me. That's an automatic no. So we don't say, prospect jane or john, that's a no, I'm out. Sorry. We of course explain to them why we do things a certain way, and thank you for inquiring but, you know, whatever the advisors say.

Batnick: If we have clients who insist on going to cash, for example, because they are afraid of the election, or the virus, or whatever the case may be, that's not a client of ours. If you're paying us for advice, then take our advice or don't. You're not going to take some of it, it's all or nothing. So we're pretty dogmatic in that sense. But I would be lying if I said that every single person that we onboard is a, quote, perfect fit. But if there are anything... I mean we have knock out factors, like literally explicitly. If people are talking too much jargon, if they're talking about information ratios and trying to show us how smart they are, they're probably not going to be a good fit. Obviously if they're a jerk, that's an automatic no. So we try and do as good a job of having the right people, because the last thing that anybody wants is for when shit hits the fan, to... You know, it's hard enough as it is to deal with.

Batnick: But if you have people that aren't a good fit, that are going to fire you, it's just poison, you don't need that in your life.

Jim: Yeah, I agree. So my history was, the original company I founded, O'Shaughnessy Capital Management, we did take direct money from high net worth individuals. So I have some experience in dealing directly with, what I would call, the public. Right? But OSAM does not take direct money from individuals. So our clients are you, right, financial advisors. And so sometimes I just like to check out, right, the window into dealing with the public. Because obviously, we're dealing with people who, for the most part, not everybody, but for the most part they're pretty sophisticated people. And it's really interesting to me, because ultimately I think most of it is psychology. And people would ask me for advice, what they should study and they would think I was joking when I answered, "I would study history, psychology and evolutionary biology."

Jim: You're going to understand a lot more about markets, because at the end of day it's human beings pricing securities. And they can, and do, consistent and persistently make the same mistakes. And what's interesting to me is this isn't anything new. I mean when I started O'Shaughnessy Capital it was 1987. And I found... Now, they didn't call it behavioral finance back then, they called it just psychology and behavioral studies and things. But we have 100 years of data on this. And so data... An ounce of emotion equals a pound of facts. Right? And so having to deal with that, that is where I would get people really well versed. And I would guess that even when you're addressing your clients, I know you're not making the financial planner or any of that, do you try to tailor it to those kinds of stories? Or what's your process?

Batnick: In terms of being behaviorally aware of our biases?

Jim: No. In terms of how you, when you're talking to your clients, right, as the director of research, I have to guess that you're not talking about information ratios. Right?

Batnick: Never. Not once.

Jim: Okay, good for you.

Jamie: [inaudible 00:35:13].

Jim: So what's your pitch?

Jamie: Got it.

Jim: I mean, yeah, what do you say to them?

Batnick: So how about this? I very rarely speak to prospects. I very rarely speak to prospects before they become clients, because we want the advisor to be empowered to have that relationship. I don't want to sell them based on our asset management. I want them to really buy into what the advisor is doing, because they're going to be the relationship manager. When I'm talking to clients, it's for a specific reason. Whether it be, you know, whatever is on their mind, interest rates. When the market was crashing, I mean I was on three calls a day. So it really, it varies. But there's no like set pitch, because I'm talking to people that are already clients.

Jim: Hmm, okay. Yeah. So walk me through when COVID and the lockdown hit, I got to imagine that you got more calls than we did. Right? Because we work only with guys like you and groups like yours. What'd you say?

Batnick: So I think the first thing that's important to do is to empathize. And, one second. I think the most important thing to do is to empathize. To just say, listen, this is scary, economically, it's scary, financially, it's scary. And so I think that's probably where you start, is to just, listen, we're with you. This is not fun, we don't know what the future holds. But I think the more context you can provide, without hitting them over the head with mathematics. Right? Because nobody wants to hear the numbers. Well listen, nine of the last 20 [inaudible 00:37:04], xyz happened. Nobody gives a shit. That's the worst approach you could take. But what you can say is, listen, we have built you a plan and the plan includes market dislocations. We don't predict these, of course. But the plan that we built you is durable enough to withstand them, assuming that we can withstand them. And in order to get the long term, we have to survive the series of short terms which is what this is.

Batnick: And that's why we believe so strongly in the strategic asset allocation, where you have your stocks, you have your bonds, and whatever the mix is, whatever the style is, is almost sort of secondary to the fact that you're doing something and sticking to it. And we also have a fairly large piece of our client's portfolios that is tactical. Because I don't think it's good enough to tell somebody, don't worry, stocks come back. I just don't. I think if somebody sees their account go from, you know, whatever it is, a million down to 750. You can't say, eh, don't worry about it. Or if it even bigger dollars, or somebody's lost on paper four million dollars. You can't say, don't worry about it, the market always comes back.

Batnick: Because, A, you don't know that. B, yes, the market has always come back, historically. But sometimes it's taken years and decades. And C, they're paying you to do something. And so what we have built is, I think, a common sense systematic approach to reduce risk when markets go crazy. And I think the thing that we do best on that front is not that our model is special or better than anybody else's. I think it's setting realistic expectations that this is not alpha, it's an insurance premium. However, even that's misleading. Because with insurance, if your house burns, you're going to collect your money. It's very possible that you pay the premium in the way of false positives. Meaning, all right, we sold here, we brought back 2% higher. No harm, no foul. But you're not guaranteed to miss the big draw down. So you could be paying the premiums, your house can burn down and you still don't collect. And that's possible.

Batnick: That's what risk is. And so we show clients and prospects, we show them all the warts and everything. So you show them the growth of a dollar, and they say, wow, that's a great [inaudible 00:39:23]. I want to have all my money there. And then you show the monthly returns and you show, listen, down 13%, down 11% the very next month. And you don't want this, believe me, you don't want this. So we give them some of it, but we don't give them too much that it's going to drown them when it's nothing but false positives. And so we were very fortunate to have side stepping a decent part of the correction. And fortunate because it is systematic, and if we were 2% higher or lower, we could have been fully invested for the month of March. And then what do you say? And we would have told them the truth, is that, listen, nothing is guaranteed. But it made the conversations a lot easier, I'll tell you that.

Batnick: So anyway, so that's how we think. Is like, listen, we know the benefits of buy and hold, of buying and holding index funds. I think everybody, that's pretty well established. But there is an enormous... The reason why most people don't get market returns is because there is a enormous price to pay for market returns, in the way of having like a 36% draw down in 25 days. How does that feel when it seems like the world is ending? And, so that's why I think it's really important to marry that sort of investing with some sort of pressure release valve. Even if we know, and I guess we don't know anything. But I'm pretty confident that our tactical model is not going to outperform the market. I hope it doesn't, in fact, because that would mean that the market has done really poorly. So listen, this is not an alpha generator. Like make no mistake about it, it's meant to distract you when the market is going really, really lower.

Batnick: And so, so far so good. And again, I tell advisors, do not over promise this thing because there will be a day when we need it most, it fails. And you don't want to have to be apologizing for that.

Jamie: On a different note now. What do you think of [SPACs 00:42:47]?

Batnick: So I think that, I forget who I was reading about this, that the fees are not much lower but they're just wrapped a little bit differently.

Batnick: Yeah. And so okay, fine, I'm totally fine with that. Like, if it helps the company get to where it needs to be. Okay, that being said, I think that the blank check stuff is pretty emblematic of where we are in the cycle. And I mean I go back and forth on this all the time, who knows how much longer this can go? And when I say this, I'm just talking about the market. Let's just call it what it is. Like, when Apple is trading in a range of, whatever, between 12 and 20 times earnings and three to five times sales, and then it explodes to 38 times earnings and nine times sales. And Tesla's being worth more than Walmart, and my plumber coming into this office is telling me that he's got $130,000 in the market and he has no idea what he owns. And all these sort of things, say, man. However, who's to say that Apple can't go to 50 times earnings?

Batnick: And do you really need to invest that way, where you're, all right now I'm in, now I'm out, now I'm in, now I'm out. I just think that that is such a recipe for disaster. The Wall Street Journal, yesterday, had a chart or a stat, the median S&P 500 stock has never been more expensive based on earnings. And [Hussman's 00:44:48] been using that data point for four years, I think. And so, of course bashing valuations is a sure sign of frothiness. And I would say yeah, the market is frothy. But I think if we've learned anything over the past few years, it's that general market valuation, it's not actionable. Like I just hate to be the bearer of real news, but you can't do anything with it. And I don't think it's realistic to, even if you had some naïve strategy. Where, okay, over 25 times earnings, I'm out. Like, you could be sitting out for 24 months longer.

Batnick: I just, I don't think that's a reasonable investment style.

Jim: You know, there was a strategy that was really popular in my father and grandfather's day. Which compared earnings yield on stocks to the bond yield. Right? And if the earnings yield on stocks ever got below the bond yield, you would go out of the market. And so, that kept you out of the biggest bull market in history. Because they just didn't invest. And I still remember this, I was a young, I was like 22 years old, I got married and I was totally into stocks. And like I was telling anyone who would listen to me, you got to invest in the stock market. You got to understand, back then, nobody wanted to invest in stocks, nobody. Everybody wanted hard assets, commodities, real estate because of the inflation of the '70s. Right? And the '70s were one of the worst decade for stock market in like 100 years. Everybody hated stocks. And I was taken out to lunch by one of my father's contemporaries, who was market guy. Right?

Jim: And he was like, "Oh Jim, man, I love your youthful enthusiasm here. But look, this is the model." And I'm like, "But that's an absolute model. Right?" And he's like, "Yeah." And I said, "Hmm, you know, I'm worried that you might be missing a dislocation here." Right? And so listen, I love the idea of... I try to be as certain as I can be. Right? But I treat all of my beliefs like they're all wrong. Right? Some are very useful, very useful, and some have a much higher probability of being correct than others. But one of the things that I've noticed, as I've looked into this over the last like five years, is that when you go after people' beliefs, man, do they get crazy. And I have written a bunch of threads on Twitter and people will say, how can you say that? And it's like, I'm not attacking them, I'm talking about myself.

Jim: And people conflate their beliefs, which are usually their opinions, let's just be honest, with themselves. Right? And so what hill would you die on? And I always joke, I follow the George Patton school of that. I make the other poor dumb bastard die on his hill. Right? And so the idea that you can ever be absolutely right, it's a fantasy. Right? So

Voltaire was great. He was like, doubt is unpleasant, but certainty is an absurdity. And one of the thins that I've noticed about people, because I've had the opportunity, I've been very lucky, and I've had the opportunity to meet like some of the greatest investors of our era. And to a person, they all have this kind of thinking that is, well I think the probability... They think probabilistically. Right? So they are not, I'm going to pound the table, you bring up the Hussman Funds and I'm not going to bag on him. Because, you know. But somebody's who like, thinks their right and the market's wrong. That's it, game over.

Jim: The market is right, you are not.

Batnick: Yeah, I think that's a pretty good default setting. And whenever I'm talking about like generalities, like I don't think works, I don't think that works, in the back of my mind I'm always thinking about the person who is not a financial professional. I'm always thinking about, can a layman implement this strategy? Is it reasonable? And I think that there are a lot of reasonable ways to invest. For example, the permanent portfolio, a quarter of your money in gold, bonds, cash and stocks, I think is very reasonable, very reasonable. I don't think many people can actually implement that in real life.

Jim: Right.

Batnick: And so I don't think that like... And everything is hard. What are you doing that's easy? Index funds are hard, stock picking is hard, mutual fund manager selection is hard. It's all hard, everybody's just trying their best. Nobody's trying to be wrong. And so I try not to attack anybody, personally, for sure. And I try my best, even though it's hard sometimes, because some people are really ridiculous. But I try not to throw stones, because I don't want anybody throwing stones at me.

Jim: Exactly. I agree completely. And look, I have gotten pretty far by admitting how little I know, right, and being willing and open minded to testing my own, and recalibrating my mental models. Because things change.

Batnick: So I think one of the areas that we've had success with is just being real with people and relating. And not [inaudible 00:50:32] them, and looking at their portfolio and saying, pfft, you need to hire us because we're going to do x, y or z. So I've been through this. Like, for example, there is a great irony in my investing style. Which, I would predominantly say is just index oriented. My life changed from a single stock position. So my mother, who is not alive anymore, when my parents got divorced, call it 1995, her brother told her to buy some stock or put some money into a stock called [Celgene 00:51:10]. This was in 1995, the stock split adjust, so it was probably trading at 12 cents a share or something like that, maybe six cents a share. And my mother, who was a secretary, never made any money, had this one stock and it was like the if you put $10,000 in Amazon thing, she really did.

Batnick: And let's say it grew to a million bucks, and then the GFC came, and it got cut in half or worse. And she was very sick at this point and knew that she didn't have that much longer to live. And she had the agony of like dealing with all this money that she was going to leave me, my brother and my sister, and the emotional baggage of that. And so that single stock literally changed my life, changed my mother's life, changed my brother and my sister's life. We were able to do things that we otherwise would not have been able to do, from one stock. And the irony is like how many blog posts have I written, cautioning people against chasing the next Amazon. And here I am, one of the biggest beneficiaries of it.

Batnick: So anyhow, when I talk to people that have, you know, they hit the lottery, they've got money in Tesla, in Apple. And you can just be real with them and you don't need formulas. You could just say, listen, here's just a framework to think about what we do now. There's going to be regrets, that's the nature of investing. How do we want to take them? So, we can decide today, what feels worse? So you 20xed your money, congratulations, you hit the lottery. Today, what feels worse? And I said this to somebody earlier today. I said, "By the way, I'm happy we didn't speak three months ago, six months ago, because I would have given you the same advice and you would have been very mad at me." But what feels worse? You sell it today and the stock doubles. That feel really bad. Or, you don't sell it today and the stock gets cut in half. What feels, which is worse?

Batnick: And in my opinion, it's easy. Getting cut in half is way worse than selling. I mean they both suck. So at least you can give somebody a framework, and if you can empathize and say, listen, no formulas, there's no absolute right or wrong answer because we don't know what the future holds. But at least we can try and put ourselves in a position of, if this happens, if that happens. And to the best of our ability, minimize regret, make a decision, implement and live with it. I think that's very helpful as opposed to showing somebody, you know, [inaudible 00:53:31] ratios or whatever.

Jim: And absolutely agree with you. And I just, while I was listening to you, I was thinking of the Chris Rock joke. If Bill Gates woke up with Oprah's money, he'd jump out the window. But it's true. Right? It's like you need to be able... I used to always say, I tell stories to inform you why you shouldn't make decisions based on stories. But listen, you can try to swim upstream forever, you can be a salmon, right, and I'm going to swim upstream. But it's a lot easier swimming downstream, and it's a lot easier understanding the way the human psyche is made up. Right? And you just gave a great example of it. I talk to so many people, when I was at Bear Stearns, we had a lot of clients who had made all of their money on one stock. And they would bring me in for the lunch to explain, you know, congratulations, great. But, you know, what would happen if... Right? And then kind of down the same path as you.

Jim: And I got to tell you, the majority, it's like the reality of what happened to them in their life, it's so hard to look beyond that. So I started using Enron a lot. Right? Because I knew those guys. And it was like, yeah, they believed it heart and soul, except for the people who were perpetrating the fraud. And even they believed thing, which is madness. And so, but the number of win rates that we got, where we would collar their stock. They didn't have to give it up, we just did a swap and we swapped it for one of my portfolios. And it varied on aggressiveness based on the person's age and outlook and everything. But when people go through things, and you telling the story about the single stock brought this to mind. That is reality to you. Right? And you have experienced it, and trying to get people to think in hypotheticals, when there is a reality, that's a tight rope. Right? And walking across it is tough.

Batnick: That's why I so much prefer speaking to people that have market experience, that have been burned, that understand that there's no magic bullet, that investing is hard. I have a very difficult time convincing somebody, that doesn't know anything, why investing is so painful. So I don't even go there. I would much prefer that they figure it out on their own. So what do I think young people should do? I think they should open up a brokerage account and trade, and go nuts, and get your feet wet. I don't think that anybody should start off with an index fund. I don't think that's great advice. So for myself, personally, I traded like crazy. I didn't think I was trading, which is kind of hilarious. Until I walked into the TD Ameritrade branch and they were like, oh, Mr. Batnick, please, right this way sir.

Jim: They brought you to that big roller's room. Right?

Batnick: They say-

Jamie: They say, I want to hear more about trader Batnick, those days.

Batnick: They said, "Do you need some help with your portfolio?" I said, "Me? No. What are you talking about? Do I need help? Yeah, do you need help?" So they were like, "Well, you know, quite a bit of activity." I was like, "Okay, what do you mean?" "Well, you had 11,000 transactions in 2010." And I said, "No, no, no, not me. You have the right account?" And they said, "Are you Michael H. Batnick?" So anyway, I learned the hard way, I traded my ass off. And one of the ways that I was able to check my delusion, and I think that this is so important for anybody that really wants to try.

Batnick: Now if you're just messing around and you don't see a future in this, whatever. But if you really want to earnestly make an effort at beating the market, I cannot emphasize highly enough that I recommend you start a journal. And you write down what you're buying and why, and then you write down what you're selling and why. And I did this for about a year, maybe. And I would go back and look at what I did, and then look at what happened, and then read why I did what I did and look at what happened. And it was so obvious, that it was a joke. And I'm not a delusional person. I can't fool... People say, you must have fooled yourself and you're the easiest person to fool. Luckily, I don't think I have that gene. I don't bullshit myself. And I certainly couldn't bullshit myself when I had the proof. Like this is my-

Jim: In your own handwriting. That's the [crosstalk 00:58:32]-

Batnick: I was caught red handed.

Jim: Yup.

Batnick: It was my own hand writing, I couldn't fake it. And so it just was so obvious to me that, and I was reading like Ben Graham and Buffet, and all the behavioral stuff just sung to me, like it does to everybody. It's so seductive.

Jim: Sure.

Batnick: Because you think, oh those buyers, those idiots that are buying and selling based on emotion. Not me. But I am so emotional. And so over the years, there have been times where I stepped back into the market, and very quickly I was like, oh, here's why I can't do it. Because I don't have the emotional makeup to ride big winners. I just, I can't do it. And I know that about myself. And I think that if you don't try, you'll never know what type of investor you are. And if you don't write it down, you could fool yourself for years, accidentally. Not because you're a bullshiter, but because you don't know.

Jim: Exactly. I mean I've written a lot about that. And that was one of the best things that I could have ever done. I journaled for other reasons, from age 19 on. But I also did market journals, and man, it's part of our brain. Right? So the memories get reconstructed.

Batnick: Totally.

Jim: They get reconstructed to be consistent with what you believe now. And I've said to people, do it in hand writing, don't type it. Because when you see your own hand writing calling you a liar. And honestly, I remember, I would have sworn on a stack of Bibles that I did one thing and then I'd go back to the journal and I'd see that I didn't do that. It's like one of the best things that you can do as a young investor. And also it's kind of like, I've made a few comments on [inaudible 01:00:16] and all of his hijinks in the market. And what I've said simply is, listen, I think the guy is a marketing genius. I think he understands memetics really well. And I think that he's 10xing the, win or lose, he's 10xing-

Batnick: Not relevant.

Jim: Yeah. If he spent that money on marketing, he's getting a 10 times higher return doing what he's doing. And then, you know, people are clutching their pearls and saying, oh my god, but he's leading people down the wrong path. And I'm like, listen, here's what I would like to happen. If he can interest young people in investing, I think that's a win. Because I don't know a single pro, not a single one, who hasn't been humbled, and humbled severely, early in their career by the market. It just, it doesn't happen. I passionately believe, you can't do well if you haven't been. Right? Because if you don't know who you are, the market is going to be a very expensive place to find out.

Batnick: Yes. So that's why I much prefer speaking to people that have already been there, done that. And if a young person was to ask me for advice on, I want to pick stocks, what do I do? This is advice that I've given that I think is, for whatever reason, counterintuitive, because... I know the reason why it's counterintuitive, because your taught to buy low and sell high. Right? If you know nothing else about the stock market, buy low, sell high.

So you look for stocks that have done poorly, but you know how negative momentum works. But you don't want to buy what's just doubled, because you want to buy the next thing that's going to double. But we know that that's probably not great advice. So what I say to people is, if you want to buy a stock because, ostensibly, you want it to go up. Right? That's why you buy stock in the first place. Buy one that's already going higher, stay away from stocks that have been cut in half or worse. Buy low, sell high is probably one of the worst tropes in investing, in asset management.

Batnick: It's just, it's horrible advice.

Jim: You know, when I did the first version of What Works on Wall Street, and the momentum chapter like freaked people out. They're like, wait a minute, you say negative momentum is like one of the worst things you can buy? Yeah. I mean it leads to horrible things, and it reminds me of the Damon Runyon quote. You know, the race might not always be to the fast, nor the battle to the strong, but that' the way to bet. Right? And so I agree with you, there is so much... I mean that would be a great book. Right? The problem is the only people who are going to read that book are people like me and you who already know that. Right? And people who don't know that... I like your idea of you want to deal with people, who, it's not their first rodeo. Because listen, people are going to make exactly the same mistakes all the time. I mean I can pretty much... You know, there are no guarantees, but that's one I'd put some money on. Right?

Jim: At least I'd put some money behind the probabilities that they're going to make exactly the same mistakes. And even if you tell them, by the way, this is the mistake you're going to make, yeah. It's like everyone's from Lake Woebegone, right, and they're all above average and I am the only exception.

Batnick: So for younger investors, there's two camps of mistakes in my opinion. There's one, the yellow people, the people that [inaudible 01:03:48] and buying the most, the highest momentum stocks. And we know that whenever the tide turns, they're not going to sell, generally speaking. So that's one camp. And the other camp are the people who think they're Ben Graham, and this is where I fell into. Where, you would either buy, I guess they're the same thing, buy [inaudible 01:04:09] high yielders. Right? Well, this stock's yielding 13%, not knowing why. Or you would buy a stock that has been cut in half several times over, and is now trading at only one time sales, without knowing why.

Jim: What a bargain.

Batnick: So I think conflating systematic value investing versus like doing that sort of frankenstein value investing on an individual stock level, is just horrific. It's a horrific idea. To try and use those simple ratios to pick out, to select stocks, individually. And I mean like three of them, four of them, is just a terrible idea. So I think you have the natural, the people that have a contrarian value bent, that are going to pay a high price. Or the people that are just on crack, or meth, that are going to pay a high price. But it's fine because you have to learn. If you don't do it, how are you ever going to learn? And maybe they find that they love it and they're actually good at it. That's possible. There's people that are actually good investors. I think that we make believe like that everybody should index fund and nobody should pick stocks.

Jim: Well, we don't believe that, obviously.

Batnick: Well of course you don't. I don't believe that for a second, I really don't. I think that for the vast majority of individual investors that are doing it themselves, yeah, they should pick index funds. But the idea that there is not skill, and finding skill is a whole other conversation. But I firmly believe that if you don't try, you'll never know.

Jim: Totally agree. Jamie?

Jamie: Now you caught me off guard. I don't think I can add to that conversation. But I do want to talk about you, Batnick wrote an article recently with a favorite title of Jim's, a generational buying opportunity. Do you want to talk about that article?

Batnick: Sure. So I just was curious, was that DOW 18,000, whatever it was on the S&P, are we ever going to see those levels ever again? And it sounds like a ridiculous question. But the NASDAQ would have to fall 45% to get back there. Certainly possible. The DOW would have to fall 35%, same with the S&P. Certainly possible. But we might never see those, that might be a gift that we never get again. Which is-

Jim: Now I'm going to have reap you via podcast. You know the GIF I always [crosstalk 01:06:39]-

Batnick: Of course. Do I know that GIF?

Jamie: And always with the question mark.

Jim: Yeah.

Batnick: Well hold on, let me just finish my thought Jim.

Jim: Okay, please.

Batnick: So what I looked at was every 20% decline. And this is always tricky, because like in the Great Depression there were six distinct 20% declines. So I measured those, and I counted 19 and I added '18 and 2011, which were 19 and change. So whatever, I added that to the mix. And of the 19 20% declines, 13 were permanent bottoms, where that was a low that never got pierced again and six were not. So for example, the lows in '02, they were breached in 2009. The lows in, I think '69 were breached in '73-'74. So that was not a generational. But even in '38, the lows I think in 1942 were lower than 1938. So anyway, it's two to one in favor of, again, it's not a giant sample size. So basically who the hell knows? But I just thought it was just like a just a mind boggling thought to even think that that was a generational buying opportunity.

Jim: You know, I love the way you do that though, because I do that too. Right? So I wrote a piece called the generational buying opportunity in March of 2009. And basically people were like, whoa, you're the guy who doesn't make predictions. And I say very rarely, and I only when like the numbers are screaming at me. And so what we did was two fold, we, number one, looked at stocks versus bonds. So the long bond. And we looked at it on rolling three, five, seven, 10, 15, 20, 30, 40 years. Right? And at that period, March of '09, the long bond had outperformed the S&P in every single period. That only happened two other times. Right? And so they were in 1947 and 1946. And so I'm like whoa, okay. So what happened after? Obviously we know what happened after.

Jim: But then I said, well okay, so let's look at the 50 worst 10 year declines. Right? And let's go back to 1870, even though some of that data's bullshit, honestly. I mean even, honestly, there's a great article by a guy by the name of [McQuery 01:09:00], talking about even the 19, late '20s data is spotty because it-

Batnick: That article killed me, by the way.

Jim: Yeah. I mean, right?

Batnick: Yeah.

Jim: So anyway, huge grain of salt. But we look at the 50 worst 10 year periods and then we look one year, three years, five years, seven, 10 years forward. All three, seven, five, 10 year, after, positive. Not a single negative. Right? And so I'm like, okay, so this could be wrong but the probabilities are screaming at me here. And let's publish this. And what's really interesting, I'd be interested for the feedback you got for your piece. Because the feedback I got from my piece in March of '09 was like you are a raving lunatic. You are so wrong. That's almost irresponsible that you would write something like that.

Batnick: Did you also show Japan? So I didn't really get much feedback but I didn't really give an opinion, as I frequently don't. If I had to guess, I would say that that is not a, that we will see those levels again.

Jim: Yeah.

Batnick: If I had to guess.

Jim: Yeah, that's, you know what? That's an odds on bet. Right? And it's like 35% is not that much.

Batnick: No, not at all. As we learned in the first quarter.

Jim: [crosstalk 01:10:27].

Batnick: And then again, even thinking about that though, like I think the general public... And again, you can't over generalize. I'm making this up, I have no evidence of this. But I think people think that they should time the market.

Jim: Yeah, they do.

Batnick: I think people think that good investing is getting out and getting in at the opportune times. And I think I probably thought that. But we know, one thing I'm certain of, that cannot be done.

Jim: That's right.

Batnick: Now, you can get lucky once or twice. But if we're talking over a full life, man, you could be invested for 70 years. How many times are you going to get in and out at the right time? I am more confident of the fact that you cannot that, the royal you, than I am of anything else in investing.

Jim: So it's a classic Jesse Livermore story. Right? Everyone loves to quote... And I do too. I think his book, it's not his book but it's obviously him, Reminiscence of a Stock Operator has such great stuff in it. Right? Because it's as fresh today as it was back when he was writing it. But everybody forgets to tell the end of the story. The end of the story is that he went, made and lost three fortunes, and after losing the last one, he killed himself in the men's room at the The Sherry-Netherland hotel. So ooh, ahh.

Jamie: The same thing happened with Charles Mackay, The Mad... Like um...

Jim: The Madness of Crowds.

Batnick: Really?

Jamie: Yeah. And his book is, I could talk about this. Like, he's the reason basically tulip mania is talked about today the way it is. Which is like far from accurate. Because he basically copied everything this like German author wrote about tulip mania, and this German author in the 1800s took everything about the tulip mania from these satirical pamphlets. It would be like if everyone learned about what happened this year from like memes posted on Twitter, which obviously [crosstalk 01:12:26].

Jim: Well, The Onion.

Jamie: Yeah. Which are intentionally over reported to be funny and like exaggerated. And these pamphlets, during the tulip mania, were issued by like the elite who did not like how much middle and lower class people were making from trading tulips.

Jim: For political reasons.

Jamie: Yeah. Because they were like, who are these poor people who are suddenly rising in like the cultural elite?

Jim: Exactly. They did not like that.

Jamie: Yeah. So they put out these pamphlets saying like, people are killing themselves after losing money. Men are getting drunk in the tavern all day, like after losing all their money in tulips. And like their kids are starving at home. But like they were intentionally written like that to try and dissuade public opinion from like the tulip industry. But that's neither here nor there. But his book he wrote all about the madness of crowds and popular delusions. And then during the railway mania of the 1840s and '70s, he was like all on board. He didn't say this is a mania and he was like investing and fully swept up. And it's like, he literally wrote the book on this topic.

Batnick: Well, that is the irony that Livermore, in his book, if you notice, every time he lost all of his money, the sayings that he came up with were chef's kiss. They were absolutely iconic. And every single time he broke his own rules, because he's human and we all are. And the irony that the greatest trader, or the most quoted trader of all time couldn't follow his own rules. Which Jim, I think is probably music to your ears and speaks to the reasons why we should be systematic. And you can't tell somebody don't be emotional. What does that mean? That's ridiculous. Don't be a person. That's not practical. But I think at least, at the very least document what you're dong, have some sort of philosophy. What do you believe in? I don't even think most people know what they believe in, because they haven't done the work to discover to what they believe in. So that's why I think you need to trade your butt of to at least get to some sort of, oh here's what I am.

Jim: So I think, I don't know if you did this, I know you participated, right, in the thing about what is your biggest behavioral bias. Remember that?

Batnick: I don't.

Jim: Well, I think you were in it and I was in it. And so anyway, I can't remember who did it. But, so my answer to what was your biggest behavioral bias was I am a human being. And how did you deal with it? I'm a quant. Right? Because telling people to not be emotional is insanity. I mean it's part of the human experience. Now granted, I have so like reinforced unemotional behavior in the way I deal with markets. That it's like I really am fairly unemotional about markets, because I, you know, I've done it more than a dozen times.

Batnick: I think, if I had to guess, just off the bat, my biggest emotional bias would probably be over confidence. And I'm talking about stocks specifically. That once I purchase something, I've got the halo effect like everybody does. I very rarely... I mean I don't think I've ever bought something... Because what I tend to do is try and buy break outs. I don't think I ever bought something and I was like, eh, this probably isn't going to work.

Jim: Right. Well exactly.

Jamie: I had one experience with... Like, I only ever... Whatever. But one of the stocks I bought was, like when I first just got interested in markets in general. And I was like, I love hearing podcasts about this and reading about this, I'm going to try. MoviePass, I was all aboard the MoviePass train. I bought at like eight dollars and I owned like, I don't know, probably like six shares. And so it's like a $48 position.

Batnick: Right. Nobody could see this but, Jim is bent over laughing.

Jamie: I was like, look, I mean this guy... I think, what was he, like the president of Redbox, he had been at Netflix. I was like, this guy knows movies. All right. You see Redboxes every still, he was at Netflix. Well all know how that did. Like, he's going to figure this out and this is the next that. And I bought at eight dollars and like there was a week, there was a period of like two weeks... And this was also, I think, before I was on Twitter because I probably would have like seen other people talk about just the absolute stupidity of the business model. But there was like a two week period, where every single day it went up 30%. It was just like, cool, open E-Trade, yup, up 30% and then just like close. And then it got all the way up to like 32, I think I ended up selling at like 23. But then-

Batnick: There you go.

Jamie: And when it all went down to like a penny. But that was just a great lesson in like, I was clearly just so hyped because the returns were ridiculous for such a prolonged period.

Jim: Dopamine, man. Dopamine.

Jamie: Yeah.

Jim: All right. This has been great. Michael, I always ask people at the end of the podcast, if we had a magic wand, right, and we could wave it and you could promulgate any two things. And you can't kill people, you can't get rid of other countries, it's got to be, you know, non-violent, people aren't going to die.

Jamie: He always says that and I'm always waiting for the one guest who like, if he didn't say that, like they would have been like murder everybody.

Jim: Yeah, what would I do? I would kill everyone and, you know. So anyway. And people have got to live by those two new rules. What you got?

Batnick: I have one that my mother always said. Treat people the way you want to be treated.

Jim: Perfect, I love it.

Batnick: I mean I think it's... and I don't always follow that rule. But I think that just gets back to the simple recommendation of just be decent.

Jim: Yeah.

Batnick: Right. Just don't be a jerk. And I think I'm going to double down on that advice for my second one. Just treat people the way you want to be treated is just... Like if everybody lived that way, which is not realistic, but this is a genie world that we're living in. The world would be a better place.

Jim: It would be a vastly better place. And you know, my mother beat that attitude into me. And it's just amazing, I cannot believe that just having simple good manners in now an edge.

Batnick: Amazing. I'll give you one more.

Jim: Good.

Batnick: If you have something mean to say about somebody, just sub-tweet it, don't say it to their face.

Jim: On that note, Michael this has been lots of fun.

Batnick: Thanks guys.

Jamie: All right, see you.

Jim: Bye.